

MEMORANDUM

DATE: Friday, July 10, 2015

TO: Richard Ellis, State Treasurer
David Damschen, Deputy State Treasurer

FROM: Brian F. Baker
Zions Bank Public Finance

RE: George Washington Academy Charter School

The purpose of this report is to document George Washington Academy Charter School's ("George Washington," "GWCS," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on George Washington's full application to the State Charter School Finance Authority (the "Authority"), subsequent conversations with the School's finance team, as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. All questions have been answered to my satisfaction. This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories except one, the School met the basic eligibility requirements for participation in the Program, as detailed below. This report should be examined in direct conjunction with the Letter of Certification for George Washington Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance. Because the Academy has one "Unsatisfactory" mark, related to budgeting and forecasting, the SCSB Letter must be formally approved at the July 9 meeting of the SCSB.

George Washington Academy—Introduction

George Washington Academy is a K-8 charter school located in St. George, Utah. GWCS's original enrollment cap of 500 students was increased for the 2010-2011 school year from 500 to 1025 students. It has been at approximately full enrollment for the past two years and

expects to be again for fall 2015. With good retention and a reasonably large waiting list, the School should not have a problem maintaining this enrollment into the future.

George Washington's focus and mission has remained constant from its original charter application. The School's mission statement reads:

We are a community of learners. We will do whatever it takes to learn. We are building a strong foundation by believing we can, working our plan, then FEELING the POWER of SUCCESS!

The School plans to issue approximately \$15.5 million in revenue bonds to refinance its existing 2008 and 2011 bonds for economic savings.

Basic Eligibility

1. George Washington's 2015 bonds will be issued through the Authority.
2. The SCSB Letter indicates that GWCS is in good standing with the State Charter School Board with the exception of forecasting or revenues and expenses. (need update from David)
3. The School has obtained an investment grade rating of "BBB-" from Standard & Poor's ("S&P"). Key credit concerns from the private rating report are listed below, followed by Zions' response to these concerns :
 - a. High debt carrying cost of 22.8% of FY 2014 expenses, though this is partially mitigated by a debt structure that decreases debt service from \$1.3 million per year to \$800,000 per year in 2026—we feel that the GWCS will be able to service the existing debt, which is made easier through the refunding.
 - b. Possibility of charter revocation—this is a non-issue.

S&P also cites the following as positive credit factors that offset the above-listed weaknesses:

- a. Strong operating reserves, highlighted by nearly 191 days' cash on hand.
 - b. Significant demand and enrollment growth, with a current headcount of 1,027.
 - c. Decent waiting list of 475 students for fall 2015.
4. George Washington just completed its 9th full year of operations. Financial operating history, as demonstrated by past audited financials, cash position, and increasing unrestricted fund balance, is satisfactory.
5. The School has a defined and specific mission. Their mission statement reads:

We are a community of learners. We will do whatever it takes to learn. We are building a strong foundation by believing we can, working our plan, then FEELING the POWER of SUCCESS!

In addition, the GWCS Belief Statements read:

P- Provide an environment where students can learn, question, and explore.

A- All students have the ability to learn and succeed.

T- Teaching character development builds a strong foundation for life.

R- Responsibility for education lies with the student, family, school, and community.

I- Individual and unique differences enhance learning.

O- Open communication is essential for success.

T- True learning requires consistency and creativity.

6. George Washington issued bonds to purchase its current facilities in 2008 and 2011 through the UCSFA. The 2015 bonds will refinance these bonds for economic savings. The School is not in default under its existing bonds.

Enrollment/Student Demand

7. The School had 1027 students enrolled this past year (2014-2015).
8. Enrollment at George Washington has increased steadily since operations began in 2006. For the past three years the School has operated above 96% of its enrollment cap, and in fact, was two students over its cap in 2015. Table 1 from the SCSB Letter includes detailed enrollment history back to the 2006-2007 school year.
9. George Washington Academy exceeds the re-enrollment standard established by the SCSB, with the most recent total re-enrollment rate of 83.5%. Over the past four years the School has ranged between 79.5% and 84.8% reenrollment. The enrollment figures indicate that GWCS isn't having difficulty filling seats. Table 2 from the SCSB Letter details historical enrollment and re-enrollment.
10. The School exceeds the ADM rate requirement. Over the last three years, GWCS's Average Daily Membership rate has been 98.4%, 97.7%, and 97.7%.
11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The waiting list from the application includes 475 potential students trying for admission in the 2015-2016 academic year. The waiting list is relatively strong and includes a satisfactory amount of students for most grade levels offered, with smaller lists for higher grades as commonly seen in K-8 or K-9 charter schools.

The School's historical re-enrollment rates are high (90% or higher) with the exception of the two transition years, for students going from 5th to 6th grade, and those going from 7th to 8th grade.

Academic Performance

12. The SCSB Letter indicates that the School significantly exceeds required academic standards. Table 3 from the SCSB Letter provides a breakdown of George Washington Academy's performance relative to other charter schools. For the 2014 school year, GWCS appears to have the top academic score among all Utah charter schools, and was very close to the top in the two prior years.

Management

13. The School has adopted reasonable management policies and practices that guide financial, debt, and risk management. The Board has adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan, including post-issuance compliance.
14. George Washington Academy has a seven-member board. The board members have a diverse set of backgrounds, which include education, medicine, legal, information technology, insurance, and business operations. The Board has staggered terms.
15. The School has contracted with Red Apple Financial as its management company. Red Apple is paid approximately \$76,800 annually for these services, which is on the low side for comparable agreements between charter schools and other service providers.
16. George Washington Academy's historical budgeted revenues and expenditures generally demonstrate "reasonable proficiency" in forecasting. The SCSB letter includes a breakdown of adherence to budgeted revenues and expenses over the past three years, and although the school exceeded 5% variance on expenses in both 2012 and 2013, they did not miss on revenues, thus putting the School in better financial position. The School's explanation for the variance relates to a few purchases for equipment and property that were not made.

Financial Performance

The School meets all of the current requirements for the Financial Performance section of the application.

17. Projections used by the School in financial forecasting appear reasonable. George Washington seems positioned to continue and improve its healthy financial standing of the past. GWCS revenues are forecasted to grow at a similar rate to expenses. The School appears to be in a healthy financial position and is currently operating at its enrollment cap.

18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	151%	Yes

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the new bonds. Revenues available for debt service is calculated by taking 2014 net income from operations of \$420,144 and adding back depreciation expense of \$396,570 and interest expense of \$1,163,069. This leaves net revenues available for debt service of \$1,979,783. When this number is divided by maximum annual debt service of \$1,315,406, the coverage is 151%.

	2014	2013	2012
Net Income Available for Debt Service	\$1,979,783	\$1,947,702	\$1,597,455
Maximum Annual Debt Service	1,315,406	1,315,406	1,315,406
Debt Coverage Ratio	151%	148%	121%

19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 25%	23%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 48% (cash of \$2,579,885 divided by total operating expenses net of depreciation of \$5,329,205). Debt burden ratio is calculated as maximum annual debt service (\$1,315,406) divided by unrestricted operating revenues (\$5,749,349), taken from 2014 financial statements.

	2014	2013	2012
Maximum Annual Debt Service	\$1,315,406	\$1,315,406	\$1,315,406
Unrestricted Operating Revenues	5,749,349	5,385,691	4,966,955
Debt Burden Ratio	23%	24%	26%

20. Operating Margin

Requirement	Measure	Sufficient?
At least 7%	34%	Yes

George Washington Academy's operating margin requirement of 7% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 177 days. Operating margin of 34% is calculated by dividing net income available for debt service of \$1,979,783 (see calculation under Debt Coverage Ratio) by total revenues of \$5,749,349.

	2014	2013	2012
Net Income Available for Debt Service	\$1,979,783	\$1,947,702	\$1,597,455
Revenues	5,749,349	5,385,691	4,966,955
Operating Margin	34%	36%	32%

The School has exceeded the operating margin requirement in each of the past five years.

21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	384%	Yes

The current ratio is defined as current unrestricted assets (\$5,739,171 for 2014) divided by current liabilities (\$1,494,069). The School has exceeded a 150% current ratio each of the last five years.

George Washington Academy	2014	2013	2012
Current Assets	\$5,739,171	\$5,030,471	\$4,273,306
Current Liabilities	1,494,069	1,368,562	1,349,893
Current Ratio	384%	368%	317%

Bond Documents

20-23. GWCS's legal bond documents have been reviewed by Chapman and Cutler in their capacity as bond counsel to the Authority, and all requirements have been incorporated. In addition, Ballard Spahr, as bond counsel to George Washington Academy, has confirmed that each of the required legal provisions is present in the bond documents.